LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6844 **NOTE PREPARED:** Jan 4, 2003
BILL NUMBER: HB 1182 **BILL AMENDED:**

SUBJECT: Reduction of Accrued Pension Liability.

FIRST AUTHOR: Rep. Buck **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill annually appropriates 1% of all General Fund revenues to the Teachers' Retirement Fund (TRF) until the fund is actuarially sound.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The actuaries for the TRF have estimated that appropriating 1% of General Fund revenues annually could result in actuarial soundness of the TRF sometime after the year 2030 under certain assumptions. A year-by- year analysis is underway and will be made available when completed. The fund affected is the state General Fund.

Background Information: The actuaries for the TRF made the following comments regarding this proposal:

If all actuarial assumptions are met, the actuarial accrued liability (AAL) will continue to grow for the Pre-1996 plan for about 20 more years as current members accrue additional benefits and interest continues to accrue. Pension liabilities will increase from a current $9.4 billion level to over $14 B.

Assuming that the $30 M appropriation from the Lottery is made annually through 2006 and that the Pension Stabilization Fund (PSF) is allowed to accumulate in accordance with state statutes (i.e., no draw downs until 2007 and draw downs based on the PSF factor of 106%), the unfunded actuarial accrued liability is not expected to be reduced to zero until after 2030. This date could be pushed further into the future if fund assets earn less than 7.5% per year, a likely possibility for 2002.

Any additional appropriations to the TRF would help reduce the time over which unfunded actuarial accrued liabilities are financed provided that the appropriations are made *in addition to* the pension payroll (including

PSF draw downs as scheduled) However, the amount of the reduction will depend on General Fund revenue growth over the next few decades. The average growth in the General Fund revenue has been just over 3% during the last 7 years. Under the assumption that General Fund revenue growth rates continue at 3% per year, additional 1% annual appropriations would act to reduce the UAAL to zero about 5-6 years earlier. The growth
rate assumption is a major part of this analysis. If the 3% growth rate is not likely to be sustained, the 1% appropriation will have a smaller effect on the unfunded liability pay down schedule.

It is important to note that the annual pension payroll will likely increase to around $1.4 B from the current $423.6 M before it begins to decrease around the year 2030. The decrease will be gradual and a substantial amount of benefit payments will be made for many years into the future. The TRF could have potential cash flow problems as a result of the large pension payroll. In addition, if the PSF factor (106%) is reduced or if the drawn downs begin early, fund assets could deplete quickly, greatly increasing the unfunded accrued liability. However, under any circumstances, additional appropriations and earnings thereon would help meet the growing pension payroll needs.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected:

Information Sources: Judith Kermans, of Gabriel Roeder Smith & Co., actuaries for the Teachers' Retirement Fund, 1-800-521-0498.

Fiscal Analyst: James Sperlik, 317-232-9866.